THE TREASURY
Kaitohutohu Kaupapa Rawa

20 February 2019

EXPLANATORY NOTE

Wellbeing analysis informing Budget decision making

What is required for this Budget?

The Treasury is using its Living Standards Framework (LSF) to support the Minister of Finance to deliver Budget 2019. One aspect of this has been to integrate key elements of the LSF into the Budget requirements and guidance for agencies.

The Guidance[1] sets out the main elements taken into account in the assessment of bids. Briefly, these are:

- Priority alignment (alignment with the Budget 2019 priorities, the Government's CPC priorities, and general Government direction outlined in the Speech from the Throne, the Coalition and Confidence and Supply Agreements)
- Intervention logic
- Implementation readiness and evaluation
- Wellbeing analysis
- Cost understanding (i.e. cost breakdown and scaling options presented)
- Cross-agency/cross-portfolio collaboration

The Treasury has published these assessment criteria for new spending initiatives in the Budget Guidance on its website, and has provided details about what an initiative needs to do to achieve green, amber or red ratings for each of the criteria. This has been done in order to be more transparent about the assessment process and to assist agencies in the preparation of their initiatives.

[1] Budget 2019: Guidance for Agencies: https://treasury.govt.nz/publications/guide/budget-2019-guidance-agencies

For Budget 2019, agencies are required to present a wellbeing analysis which shows how the proposed outcomes of their initiatives are expected to impact on current and future wellbeing, regardless of the type of initiative. They also need to discuss the potential impact on the four capitals of the LSF, and how the initiatives may contribute to resilience or risk mitigation. They are also required to identify the wellbeing impacts of their proposed initiatives over time, and identify who will be most impacted.

To support the required analysis, agencies also need to show how they have arrived at the potential impacts of the initiative. To do this, they will need to show a robust intervention logic which strengthens the case of the initiative and provides confidence for the Treasury and Ministers in the impacts identified.

Fit-for-purpose cost-benefit analysis is one way in which agencies can build the case for the impacts they have identified. The Treasury has updated its CBAx tool to include the intergenerational wellbeing domains, so that the tool can be used to support this aspect of wellbeing analysis.

What does the CBAx tool do – and what doesn't it do?

Importantly, although CBAx has been updated to help monetise impacts across the wellbeing domains, the wellbeing analysis required for Budget 2019 does *not* focus on monetisation of impacts. This recognises that impacts on wellbeing cannot always be monetised, and that not everything we value can in turn be assigned a monetary value. Budget 2019 initiatives are required to consider *all* impacts, including unmonetised impacts as well as those impacts able to be monetised.

The advantage of the CBAx tool is that it makes assumptions explicit, and values different types of costs and benefits in a consistent way. This provides the basis for more informed choices between different options where they can be monetised. CBAx will inform and be part of the Treasury assessment where an agency provides CBAx as part of their budget submission – but they are not required to do so.

What about the comparisons of value that have been made in the media?

The CBAx tool includes a database of impact values – a range of New Zealand-specific publically-available data that helps place values on impacts, such as costs, benefits and savings, in a consistent way (e.g. across a common time period). These impact values are classified into "Government" or "non-Government" within the model, and are not necessarily directly comparable.

For example, comparing the fiscal value of savings to the Government/taxpayer for avoided diabetes ($3,916) with a subjective wellbeing value to an individual from avoided loneliness ($8,572) is not a valid direct comparison, because they are monetising different things.

Avoiding diabetes may have a fiscal saving to government, but it will also have a value for its health outcome. For example, each year of quality of life gained would add

around $28,000 to the equation. Neither would you assume the quantification of outcomes is correct without checking the investment logic. The Treasury's Budget Guidance covers these points.

Background on the Treasury's CBAx tool

Ahead of every Budget, government agencies submit budget initiative analysis and advice to the Treasury. All budget initiatives (and all business cases and regulatory impact statements) are expected to include cost-benefit analysis to assist Parliamentary decision-makers to compare options.

The Treasury's cost-benefit analysis (CBAx) tool was introduced ahead of Budget 2016 as a requirement for the cost-benefit analysis to support a number of social sector new initiatives. Other Budget 2016 initiatives did not require the use of CBAx, and the requirement to use the tool has varied in scope with each successive Budget. However, all agencies are encouraged to use it where useful.

In the Budget context, the CBAx analysis is used primarily by the Treasury vote team in assessing the wellbeing impacts for New Zealand and developing value for money advice.

The quality of cost benefit analysis in budget initiatives has improved significantly since the introduction of the CBAx tool. While there are capability and resourcing issues with completing and assessing CBAx, it has led to more robust analysis including intervention logic and the initial steps of identifying and quantifying impacts.[2]

[2] Review of CBA advice to support budget initiatives - NZIER report to the Treasury: https://treasury.govt.nz/publications/review-cba-advice-support-budget-initiatives-nzier-report-treasury